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Legal and Accounting Services: A Profile

by Peter Rosborough

Service Industries Division
10th Floor, Jean Talon Building, 170 Tunney's Pasture Driveway, Ottawa, ON K1A 0T6

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. not available for any reference period

.. not available for a specific reference period

... not applicable

0 true zero or a value rounded to zero

0s value rounded to 0 (zero) where there is a meaningful distinction between true zero and the value that was rounded

p preliminary

r revised

x suppressed to meet the confidentiality requirements of the *Statistics Act*

E use with caution

F too unreliable to be published

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Legal and Accounting Services: A Profile

by Peter Rosborough

1 Summary

This article examines trends in the legal and accounting industries, and highlights key characteristics of these industries in relation to the Canadian economy.

The legal services industry comprises establishments providing legal and paralegal services. The accounting services industry comprises establishments providing services such as auditing, bookkeeping, preparing tax returns, and processing payrolls.

In 2008, employment in these two industries, combined, accounted for 22 % of total employment in the nine industries that make up the professional services sector. This was a decline from 25 % in 1997.

Economic output for the legal and accounting services industries, as measured by gross domestic product (GDP), grew 0.1% in 2008. However, from September to December 2008, economic output declined each month.

From 1998 to 2008, except for the years 2001 and 2007, output in legal and accounting services rose at a slower rate than in the professional services sector as a whole. Among the provinces, legal and accounting services output increased fastest in Alberta during this period.

Capital spending in legal and accounting services grew during the 1990s, an average 23.1% for the legal services industry and 20.3% for the accounting services industry. This expansion was likely a result of strong growth in information and communication technology.

Earnings in legal services increased at a faster average rate than in professional services as a whole.

Employment also grew in both industries, each of which had high proportions of self-employed people.

Among those employed in legal and accounting services, a proportion more than twice the labour force average had a university degree.

Definitions

Below are the definitions of the three industries profiled in the article using the North American Industrial Classification System 2007 (NAICS 2007).

5411 – Legal Services: This industry group comprises establishments primarily engaged in providing legal and paralegal services. Examples of establishments in this industry group are offices of lawyers, offices of notaries and offices of paralegals.

5412–Accounting, Tax Preparation, Bookkeeping and Payroll Services: This industry group comprises establishments primarily engaged in auditing accounting records; designing accounting systems; preparing financial statements; developing budgets; preparing tax returns; processing payrolls; bookkeeping; and billing.

54 – Professional, Scientific and Technical Services: All industries within the professional services sector, including legal services; accounting, tax preparation, bookkeeping and payroll services; architectural, engineering and related services; and specialized design services; computer systems design and related services; management, scientific and technical consulting services; scientific research and development services; advertising, public relations and related services; and other professional, scientific and technical services. For the purposes of this article, this sector will be referred to as either the professional services sector or professional services industries.

Data sources

The gross domestic product (GDP) by industry data at basic prices are chained volume estimates with 2002 as their reference year. This means that the data for each industry and aggregate are obtained from a chained volume index multiplied by the industry's value added in 2002. For the 1997-to-2006 period, the monthly data are benchmarked to annually chained Fisher volume indexes of GDP obtained from the constant-price input–output tables.

The Annual Survey of Accounting Services collects the financial and operating data needed to produce statistics on accounting services in Canada. The survey also collects detailed information on the characteristics of the businesses, such as type of revenue and type of client. These data are aggregated with information from other sources to produce official estimates of the national and provincial economic production of the accounting services industry in Canada.

http://www.statcan.gc.ca/cgi-bin/imdb/p2SV.pl?Function=getSurvey&SDDS=4716&lang=en&db=imdb&adm=8&dis=2

The data on capital expenditure are from the annual survey, Capital and Repair Expenditures, Actual, Preliminary Actual and Intentions. This survey collects data on intentions related to capital investment and the expenditures for the previous two years. Information on capital spending provides a useful indication of market conditions both in the economy at large and in particular industries. Since these expenditures account for a large and relatively variable proportion of gross domestic expenditures, the size and content of the investment program provides significant information about demands that have been placed upon the productive capabilities of the economy during the period covered by the survey.

http://www.statcan.gc.ca/daily-quotidien/090225/dq090225a-eng.htm

The information on employment demographics is from the 2006 long form version of the census, which provides demographic data on people employed in the industry. This survey is sent to one in five households across Canada and requests more detailed information from respondents than the normal census, including information on the employment of individuals. These data are then used to form a demographic picture of the industry's workforce, with variables such as age, gender and education level.

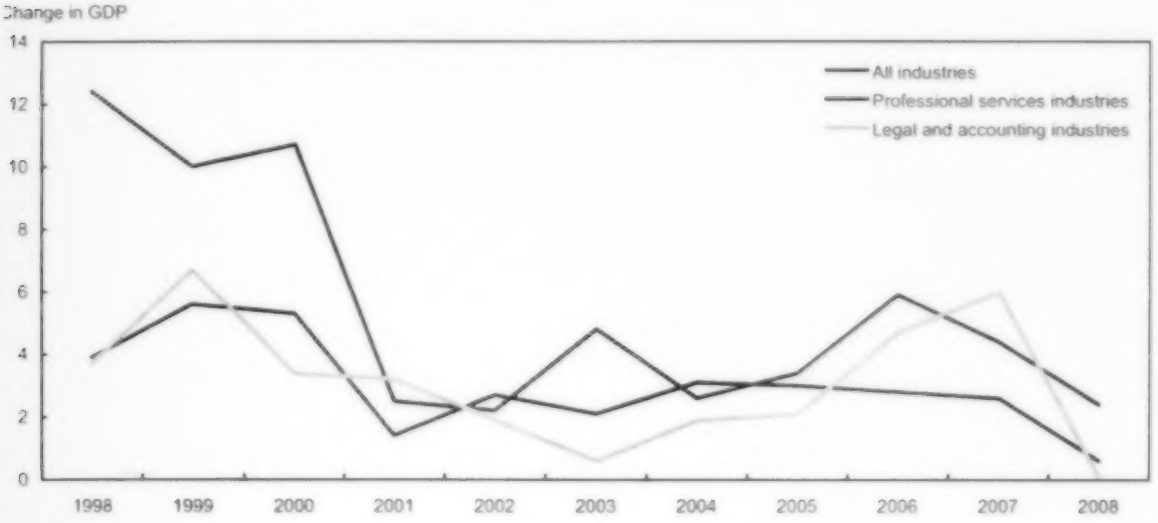
http://www.statcan.gc.ca/cgi-bin/imdb/p2SV.pl?Function=getSurvey&SDDS=2612&lang=en&db=imdb&adm=8&dis=2

Data on real wages are collected directly from survey respondents and extracted from administrative files. The statistics compiled by the Survey of Employment, Payrolls and Hours are based on a census of administrative records for all in-scope establishments with employees that can be found on the Business Register. The total payroll employment estimates and the monthly payrolls are derived from the administrative source. Administrative information for total gross monthly payrolls and the total number of employees for the last pay period in the month are obtained from payroll deduction accounts maintained by Canada Revenue Agency. Statistics Canada's Public Institutions Division provides information for general government services at the provincial and federal levels.

2 Legal and accounting services hit harder

The global economic slowdown appears to have been tough on legal and accounting services. The 0.1% output growth in 2008 was the smallest annual increase since data became available in 1997. By comparison, output in across the professional services sector grew 2.4% in 2008, and output in the economy as a whole rose 0.6%.

Chart 1
Legal and accounting services posted weak growth in 2008



Source(s): Statistics Canada (Gross Domestic Product by Industry), CANSIM table 379-0027.

Much of the weakness in 2008 occurred in the latter part of the year. The legal and accounting services industries posted decreases every month from September to December. Large declines occurred in November and December, when the effects of the global economic slowdown were starting to take hold in Canada. Specifically, the decline seen in the legal and accounting services industry was exclusively attributable to the severe contraction in property resales.

3 Better progress over the last decade

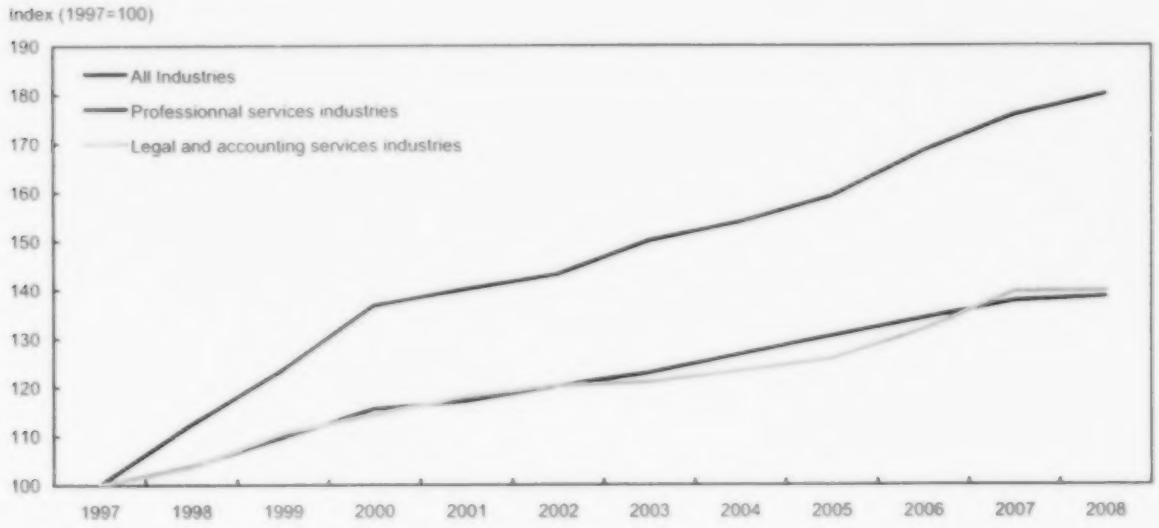
From 1998 to 2008, economic output in the legal and accounting services industries rose at an annual average rate of 3.1%: this was a slower pace than that of the professional services sector (+5.5%), but was in line with growth across the economy (+3.0%).

Nevertheless, major restructuring in the accounting services industry in 2002 and 2003 caused a decline in GDP in the legal and accounting services industries over that period. In the United States, the *Sarbanes-Oxley Act* of 2002 increased federal oversight of accounting firms in the United States, and introduced stiff penalties for corporate fraud and conflicts of interest. This legislation forced major accounting firms operating in Canada as well as the United States to sell off their consulting operations to avoid potential conflicts of interest. According to the Annual Survey of Accounting Services, revenue growth in the accounting services industry contracted 3.7% in 2002.

On the other hand, consistent growth from 1998 to 2008 was likely due to the increased business activity seen in Canada during the period. This is evidenced by the strong correlation between the performance of the legal and accounting industries and the economy as a whole. According to the 2007 Annual Survey of Accounting Services, businesses accounted for roughly 70% of the accounting industries client base in terms of revenue, which means

that the accounting industry is strongly affected by a change in business activity.[1] Individuals and households made up 22% of the accounting industry's client base while government accounted for 8%.

Chart 2
Professional services grew considerably faster



Source(s): Statistics Canada (Gross Domestic Product by Industry), CANSIM table 379-0027.

In 2008, output in professional services was up roughly 80.0% from 1997, compared with 40.0% for legal and accounting services.

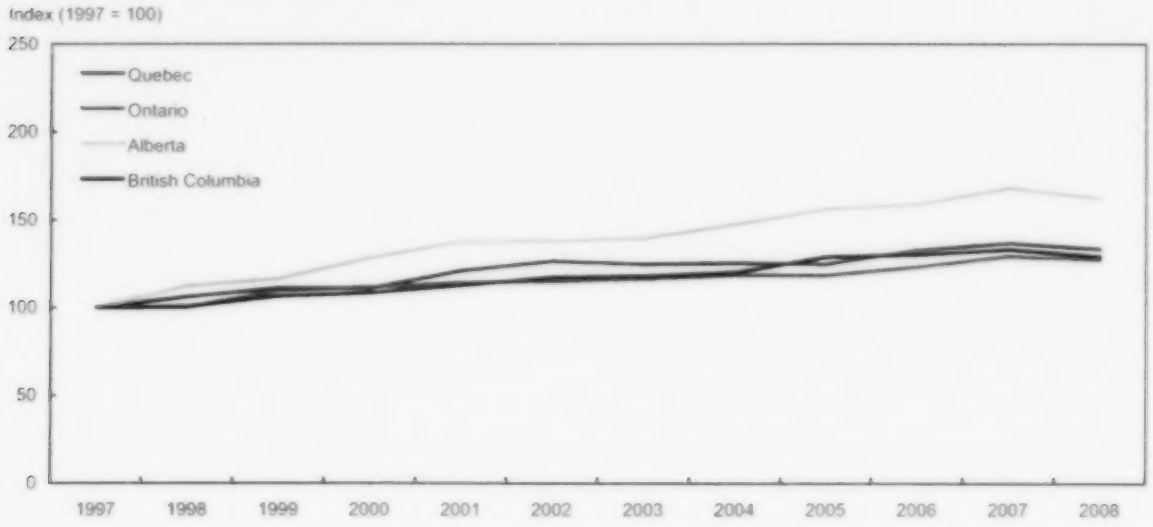
3.1 Alberta posted fastest growth, Ontario and Quebec steady

Growing business activity largely brought on by the commodities boom enabled Alberta's legal and accounting services industries to boost output 62.5% from 1997 to 2008. Over the same period, output rose 27.5% in Ontario and 33.6% in Quebec.

From 1998 to 2008, the annual average growth rates in these industries were 4.5% in Alberta, 2.2% in Ontario and 2.7% in Quebec.

1 As there is no comparable survey for the legal services industry conducted by Statistics Canada, an estimate of the client base for legal services is not available.

Chart 3
Alberta's legal and accounting services industries show greatest increase

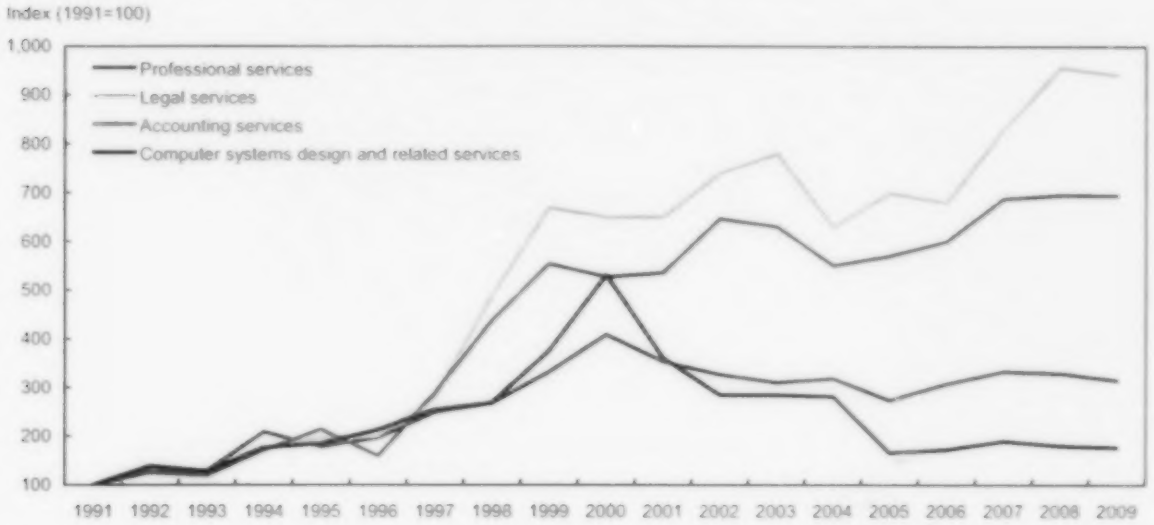


Source(s): Statistics Canada (Gross Domestic Product by Industry), CANSIM table 379-0025.

4 Capital spending for legal and accounting services industries grew significantly faster than for most professional services industries

Much like other professional service industries, the legal and accounting services industries are not capital intensive. They rely mainly on human capital to provide services to their clients. However, during the 1990s, the legal and accounting services industries experienced an extended period of growth in capital spending, likely reflecting the strong growth in information and communication technologies seen by many industries in this period.

Chart 4
Capital spending in legal and accounting services has outpaced professional services



Source(s): Statistics Canada (Capital and Repair Expenditures), CANSIM table 029-0016.

From 1991 to 2000, a time of rapid growth in information and communication technologies, capital expenditures in the legal and accounting services industries rose among the fastest of all professional services industries. Across the professional services sector, capital spending rose an annual average 16.9% during this period; in the legal services industry, capital spending averaged 23.1% per year, the second highest rate among professional service industries. For accounting services, average annual growth was 20.3%—fifth highest, and still above the average for the professional services sector.

From 2000 to 2009, growth in capital spending slowed generally. In professional services as a whole, spending declined 1.4%. However, legal services still posted an annual average growth rate of 2.0%, and accounting, 1.5%. For the period from 1991 to 2009, legal services saw the second highest growth rates in capital expenditure of all professional services, and accounting services, the third highest.

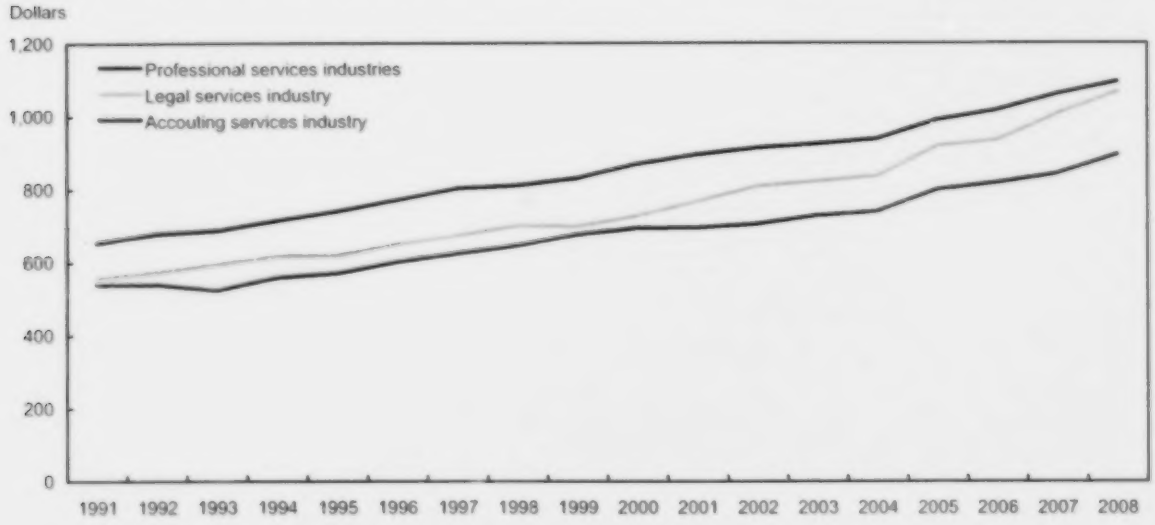
5 Earnings for all professional services higher than national average

From 1991 to 2008, average weekly earnings for those employed in accounting services rose 3.0%. This increase was in line with the 3.1% gain during the same 18-year period for all professional services industries. Despite similar gains, earnings were consistently higher for professional services industries as a whole than for accounting services over the period.[2]

Earnings for employees in the legal services industry rose at an annual average rate of 3.9% during this period. Despite this faster growth, earnings for the professional services sector were consistently higher over the entire period than those for employees in the legal services industry.

2 The data on average weekly earnings and employment in this section are from the Survey of Employment, Payrolls and Hours, which does not account for self-employed workers.

Chart 5
Average weekly earnings in legal and accounting services lower than in professional services sector as a whole

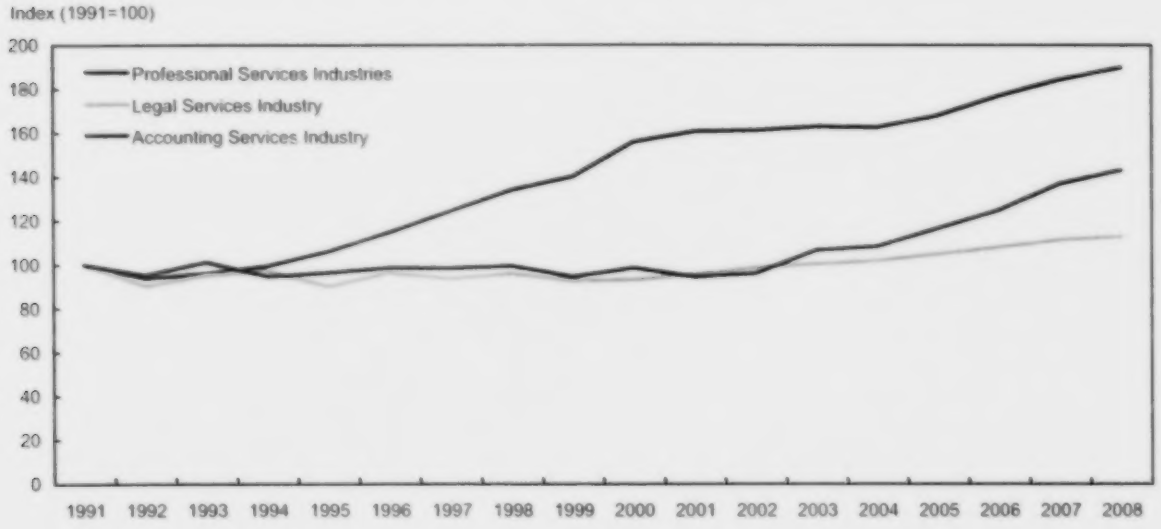


Source(s): Statistics Canada (Survey of Employment, Payrolls and Hours), CANSIM table 281-0026.

In 2008, employment in legal and accounting services accounted for 22 % of employment in the professional services sector, down from 25 % in 1997.

Employment in the legal and accounting industries grew at a slower pace than in the professional services sector as a whole. In legal services, employment grew 0.7%; in accounting services, 2.1%. Employment in the professional services sector grew at an average rate of 3.8%. Consistent employment growth in the legal and accounting industries started after 2002.

Chart 6
Employment in professional services outpaced legal and accounting industries



Source(s): Statistics Canada (Survey of Employment, Payrolls and Hours) CANSIM table 281-0023.

The recent economic downturn has lowered employment numbers in these industries. From December 2008 to January 2009, employment in the professional services sector dropped 2.7%; in accounting services, 6.0%; and in legal services, 0.7%.

6 Annual incomes in legal and accounting services higher than national average

According to data from the 2006 Census, the average annual income for people working in the professional services sector was $67,969 in 2005, 32.7% higher than the national average of $51,221. The difference was due, in part, to the higher proportion of people working in the professional services industries with a university degree.

Average employment income for full-time employees in the accounting services industry was $64,713 in 2005,[3] 4.8 % below the average for the professional services industries.

Conversely, in the legal services industry, full-time employees earned $88,903, 30.8% higher than the average for the professional services sector.

3 The average incomes reported here include those derived from self-employment.

Table 1
Average and median employment income full-year, full-time workers, by industry

	Professional services	Legal services	Accounting services	All industries
	dollars			
Employment income				
Average	67,969	88,903	64,713	51,221
Median	49,855	47,999	42,138	41,401

Source(s): Statistics Canada, 2006 Census catalogue no. 97-564-XCB2006006.

7 Legal and accounting services provided mainly by unincorporated firms

The professional services sector has one of the least incorporated sectors of the Canadian economy. According to provincial law, many professional industries, such as lawyers and accountants, have traditionally been forbidden to operate as incorporated entities. This meant that many professionals would be personally liable for any actions of the operating business entity, such as that entity's debt.

While the legislation varies from province to province, there has been a trend in the past decade towards allowing these professional businesses to incorporate. Accountants and lawyers are now permitted to incorporate in many provinces, including Ontario and Quebec.

In 2008, 59% of establishments that offered accounting services were unincorporated. Within the accounting services industry, offices of accountants comprised the largest share of establishments: 58% of accountants' offices were unincorporated. In tax preparation services, which comprise the second largest share of establishments, 49% of establishments were unincorporated. (Tax preparation services were never subject to the historical prohibition on incorporation.) In the bookkeeping, payroll and related services industry, 64% of establishments are unincorporated, despite being recently allowed to incorporate in some provinces.

The same trend applies to the legal services industry. Among offices of lawyers, which account for the largest share of establishments in the legal services industry, 67% of establishments were unincorporated in 2008. The same held true for offices of notaries: 84.9% of establishments were unincorporated. The exception is the other legal services industry, where 45.2% of establishments were unincorporated. This is due to the varied nature of services offered by this industry, such as paralegal and bailiff services.

8 Accounting industry has third highest proportion of self-employed in professional services sector

Another characteristic of professional services is the high degree of self-employment. According to the 2006 Census, the professional services industry with the highest proportion of self-employed was specialized design, at 49.1%, followed by consulting services at 38.0% and accounting services at 35.4%. This likely reflects the high proportion of unincorporated firms that operate in the accounting services industry. The same holds true for the legal services industry, which posted the fifth-highest rate of self-employment, 28.4%. The lowest rate belonged to the scientific services industry, 6.9%.

Table 2
Number and percentage of individuals reporting self-employment in the professional services sector, by industry

	Individuals	Total employed
	number	percent
Industry		
Specialized Design	25,550	49.1
Consulting Services	50,975	38.0
Accounting Services	49,290	35.4
Other Professional Services	27,485	31.9
Legal Services	39,155	28.4
All Professional Services	303,290	27.0
Advertising Services	17,190	24.0
Computer Services	50,930	21.7
Architects and Engineers	38,725	18.5
Scientific Services	3,975	6.9

Source(s): Statistics Canada, 2006 Census catalogue no. 97-564-XCB2006006.

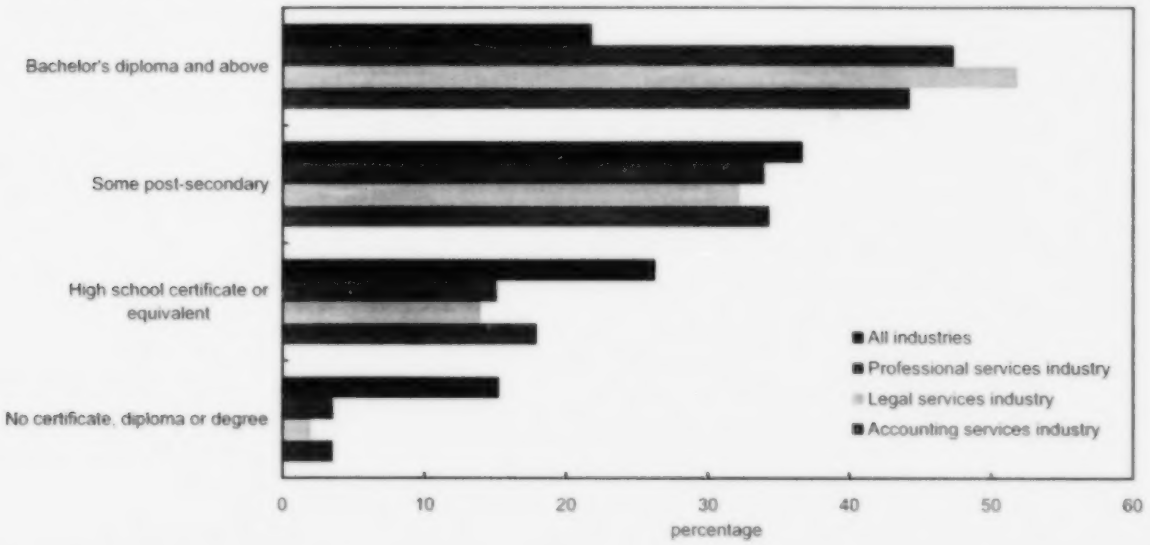
9 Workforce more educated

A large proportion of people employed in the legal and accounting services industries had some form of postsecondary education or a university degree. In 2006, 84% of employees in the legal services industry had some postsecondary education, and 79% in the accounting industries.

In 2006, 52% of employees in the legal services industry were university graduates, and 44% in the accounting services industry. This level of educational attainment was consistent within the professional services sector as a whole, where 47% of employees had a university degree. In 2006, 22% of all workers in the labour force had a university degree.

The legal services industry had the third highest proportion of university graduates among the nine industries that comprise the professional services sector, after scientific research and development services (63%) and management, scientific and technical consulting services (53%). Accounting services had the sixth highest proportion.

Chart 7
The share of employees with postsecondary training is higher in professional services than the labour force average

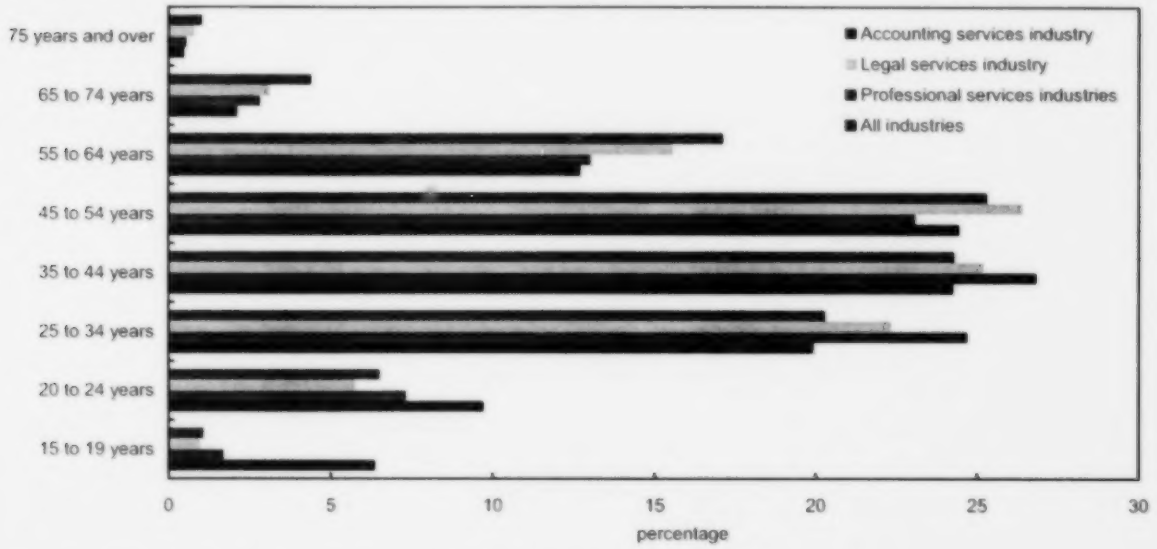


Source(s): Statistics Canada, 2006 Census catalogue no. 97-564-XCB2006006.

10 Aging workforce in legal and accounting services

In the legal, accounting and professional services industries, older age groups (45 and over) made up a higher proportion of the workforce than in the economy as a whole in 2006. In contrast, the proportion in younger age groups (15 to 19 and 20 to 24) was higher in the economy as a whole than in the accounting and legal industries.

Chart 8
Legal, accounting and professional workforce tends to be older

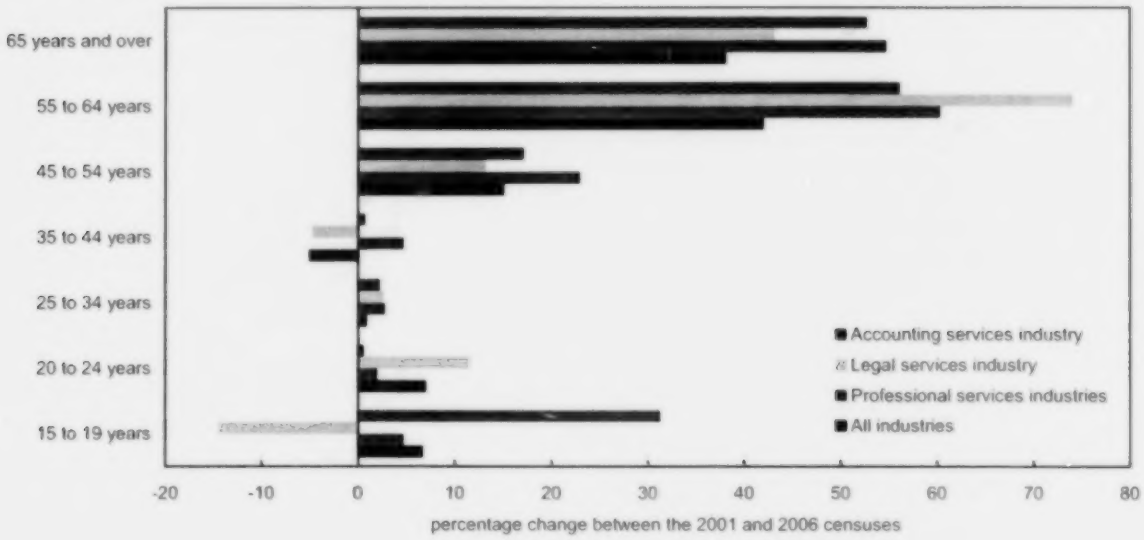


Source(s): Statistics Canada, 2006 Census Catalogue no. 97-564-XCB2006006.

According to the 2006 Census, workers 45 and older accounted for 46% of the workforce in the legal services industry, up from 39% in 2001. In the accounting services industry, those 45 and older accounted for 48% of the workforce, up from 41% in 2001.

Both proportions were higher than the share of older age groups in the professional services industries and the labour force as a whole. In the professional services industries, the 45-and-older age group accounted for 39% of those working in 2006, up from 33% in 2001. In the labour force as a whole, this group made up 40% of those working in 2006, up from 35% in 2001.

Chart 9
Workforce of professional services industries aging



Source(s): Statistics Canada, 2006 Census Catalogue no. 97-564-XCB2006006.

The number of people aged 45 and older in the professional services sector grew at a faster pace compared to all industries between the 2001 and 2006 censuses. This is also true for those working in the legal and accounting services industries, with the exception of the 45 to 54 age group for the legal services industry.

About this article

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Correspondence, in either Canada's official language, should be addressed to:

Editor-in-chief, *Analysis in Brief*
Statistics Canada
170 Tunney's Pasture Driveway
3-A2 Jean Talon
Ottawa, Ontario K1A 0T6
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